

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Charles Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

The enclosed report prepared by Simon, Underwood, & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood, & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood, & Associates, PSC evaluated Magoffin County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY FISCAL COURT

June 30, 2009

Simon, Underwood & Associates, PSC has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$8,350,313 as of June 30, 2009. The fiscal court had unrestricted net assets of \$1,806,082 in its governmental activities as of June 30, 2009. The fiscal court had total debt principal as of June 30, 2009, of \$6,837,146 with \$485,984 due within the next year.

Report Comments:

- 2009-01 The Payroll Revolving Account Should Maintain A Zero Balance
- 2009-02 The Fiscal Court Should Require That Proper Records Be Maintained For The Public Properties Corporation Fund
- 2009-03 The Fiscal Court Should Monitor Bonding Requirements For All Elected And Appointed Officials
- 2009-04 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
- 2009-06 The Fiscal Court Should Improve Controls Over Expenditures
- 2009-07 The Fiscal Court Should Adopt A Written Investment Policy

Deposits:

The Fiscal Court's deposits as of August 31, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$290,894

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary Finance and Administration Cabinet

Honorable Charles Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2009, on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2009-01 The Payroll Revolving Account Should Maintain A Zero Balance
- 2009-02 The Fiscal Court Should Require That Proper Records Be Maintained For The Public Properties Corporation Fund
- 2009-03 The Fiscal Court Should Monitor Bonding Requirements For All Elected And Appointed Officials
- 2009-04 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2009-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
- 2009-06 The Fiscal Court Should Improve Controls Over Expenditures
- 2009-07 The Fiscal Court Should Adopt A Written Investment Policy

Simon, Underwood & Associates PSC

November 12, 2009

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Kellie Lee Miller	Magistrate
Stanley Holbrook	Magistrate
Pernell LeMaster	Magistrate

Other Elected Officials:

Gregory D. Allen	County Attorney
Tim Watkins	Jailer
Renee Arnett Shepherd	County Clerk
Tonya Ward	Circuit Court Clerk
Randall Jordan	Sheriff
Bill Patrick	Property Valuation Administrator
Anthony Jenkins	Coroner

Appointed Personnel:

Walter E. Hardin	Deputy Judge, through April 8, 2009
Mike Wilson	Finance Officer, beginning January 30, 2009
	Deputy Judge, beginning April 9, 2009
Kila Keeton	County Treasurer
Mary Miller	Finance Officer, through January 29, 2009

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MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,787,432
Receivable from Water District	<u>20,000</u>
Total Current Assets	<u>1,807,432</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	804,003
Buildings	11,064,686
Vehicles and Equipment	447,290
Infrastructure	<u>1,064,048</u>
Total Noncurrent Assets	<u>13,380,027</u>
Total Assets	<u>15,187,459</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	344,200
Financing Obligations Payable	<u>141,784</u>
Total Current Liabilities	<u>485,984</u>
Noncurrent Liabilities:	
Bonds Payable	5,764,500
Financing Obligations Payable	<u>586,662</u>
Total Noncurrent Liabilities	<u>6,351,162</u>
Total Liabilities	<u>6,837,146</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	6,542,881
Restricted For:	
Debt Service	1,350
Unrestricted	<u>1,806,082</u>
Total Net Assets	<u>\$ 8,350,313</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,808,525	\$ 177,701	\$ 642,759	\$ 1,180,032
Protection to Persons and Property	649,129	4,798	59,630	
General Health and Sanitation	142,593	11,393	0	
Social Services	20,561			
Recreation and Culture	362,934			
Roads	745,447	5,596	1,680,248	
Interest on Debt	315,196			
Capital Projects	83,240			
Total Primary Government	\$ 4,127,625	\$ 199,488	\$ 2,382,637	\$ 1,180,032

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	
\$	191,967
	(584,701)
	(131,200)
	(20,561)
	(362,934)
	940,397
	(315,196)
	(83,240)
	<u>(365,468)</u>
	475,011
	230,794
	93,896
	1,225,126
	34,845
	125,861
	1,014
	<u>2,186,547</u>
	<u>1,821,079</u>
	<u>6,529,234</u>
\$	<u><u>8,350,313</u></u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Local Government Economic Assistance Fund	Magoffin County Public Properties Corporation Justice Center
ASSETS				
Cash and Cash Equivalents	\$ 984,389	\$ 158,414	\$ 428,772	\$ 1,350
Total Assets	<u>984,389</u>	<u>158,414</u>	<u>428,772</u>	<u>1,350</u>
FUND BALANCES				
Reserved for:				
Encumbrances	12,723	32,504	659	
Unreserved:				
General Fund	971,666			
Special Revenue Funds		125,910	428,113	
Debt Service				1,350
Total Fund Balances	<u>\$ 984,389</u>	<u>\$ 158,414</u>	<u>\$ 428,772</u>	<u>\$ 1,350</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2009
 (Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 214,507	\$ 1,787,432
<u>214,507</u>	<u>1,787,432</u>
1,049	46,935
213,458	971,666 767,481 1,350
<u>\$ 214,507</u>	<u>\$ 1,787,432</u>

**Reconciliation of the Balance Sheet - Governmental
 Funds to the Statement of Net Assets**

Total Fund Balances	\$ 1,787,432
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	15,096,503
Accumulated Depreciation	(1,716,476)
Long-term Receivable Is Not Available To Pay For Current-Period Expenditures And, Therefore, Is Not Reported In The Funds.	20,000
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(728,446)
Bonds	<u>(6,108,700)</u>
Net Assets Of Governmental Activities	<u>\$ 8,350,313</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Local Government Economic Assistance Fund	Magoffin County Public Properties Corporation Justice Center
REVENUES				
Taxes	\$ 1,710,575	\$	\$	\$
Excess Fees	34,845			
Licenses and Permits	148,060	5,596		
Intergovernmental	772,911	1,098,398	901,682	600,592
Charges for Services	774			
Miscellaneous	72,898	4,362	14,402	
Interest	439	265	174	41
Total Revenues	<u>2,740,502</u>	<u>1,108,621</u>	<u>916,258</u>	<u>600,633</u>
EXPENDITURES				
General Government	785,074	10,800	40,638	
Protection to Persons and Property	14,626		161,165	
General Health and Sanitation	25,000		17,298	
Social Services			20,561	
Recreation and Culture	250,000		114,288	
Roads		746,551	110,950	
Debt Service	348,203	99,629		598,592
Capital Projects			13,600	
Administration	383,087	270,309	31,590	2,025
Total Expenditures	<u>1,805,990</u>	<u>1,127,289</u>	<u>510,090</u>	<u>600,617</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>934,512</u>	<u>(18,668)</u>	<u>406,168</u>	<u>16</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	(342,821)		(89,000)	
Transfers From Other Funds	67,483	50,000		
Total Other Financing Sources (Uses)	<u>(275,338)</u>	<u>50,000</u>	<u>(89,000)</u>	
Net Change in Fund Balances	659,174	31,332	317,168	16
Fund Balances - Beginning	325,215	127,082	111,604	1,334
Fund Balances - Ending	<u>\$ 984,389</u>	<u>\$ 158,414</u>	<u>\$ 428,772</u>	<u>\$ 1,350</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 314,253	\$ 2,024,828
	34,845
22,700	176,356
233,700	3,607,283
	774
11,561	103,223
476	1,395
<u>582,690</u>	<u>5,948,704</u>
	836,512
456,026	631,817
131,115	173,413
	20,561
	364,288
12	857,513
47,954	1,094,378
79,440	93,040
104,962	791,973
<u>819,509</u>	<u>4,863,495</u>
<u>(236,819)</u>	<u>1,085,209</u>
(67,483)	(499,304)
<u>381,821</u>	<u>499,304</u>
<u>314,338</u>	
77,519	1,085,209
136,988	702,223
<u>\$ 214,507</u>	<u>\$ 1,787,432</u>

The accompanying notes are an integral part of the financial statements.

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**MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 1,085,209
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	250,114
Depreciation Expense	(313,426)
<p>Proceeds From Debt Provided to outside Entities Is Considered an Expenditure to Governmental Funds, While Payment on Receivables Provide Current Financial Resources to Governmental Funds. These Transactions Have No Effect On Net Assets.</p>	
Loan to Others	20,000
<p>The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have no Effect on Net Assets.</p>	
Financing Obligations Principal Payments	440,182
Bond Payments	<u>339,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,821,079</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Magoffin County does not have any discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal Court appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no business-type activities or fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Magoffin County, major funds are those whose total assets, liabilities, revenues, or expenditures/expenses are a least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Magoffin County Public Properties Corporation - Justice Center - The Magoffin County, Public Properties Corporation - Justice Center accounts for the activities of the Magoffin County, Public Properties Corporation - Justice Center, a blended component unit of the county. The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Forest Fire Fund, Solid Waste Fund, Community Center Sinking Fund, 911 Fund, Right of Way Use Fund, Building Administration Fund, Health Department Grant Fund and Reserve Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Fund, Local Government Economic Assistance Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, Right of Way Use Fund, Building Administration Fund, Health Department Grant Fund and Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Magoffin County, Public Properties Corporation – Justice Center – The purpose of this fund is to account for the activities of the Public Properties Corporation. The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure, placed in service on or after July 1, 2003.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	10
Buildings	\$ 5,000	20-50
Land Improvements	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Department for Local Government does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2008, public funds were exposed to custodial risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$290,894

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			Ending Balance
	(Restated) Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 804,003	\$	\$	\$ 804,003
Total Capital Assets Not Being Depreciated	804,003			804,003
Capital Assets, Being Depreciated:				
Buildings	12,209,797	38,450		12,248,247
Vehicles and Equipment	764,430	27,144		791,574
Infrastructure	1,068,159	184,520		1,252,679
Total Capital Assets Being Depreciated	14,042,386	250,114		14,292,500
Less Accumulated Depreciation For:				
Buildings	(976,825)	(206,736)		(1,183,561)
Vehicles and Equipment	(289,321)	(54,963)		(344,284)
Infrastructure	(136,904)	(51,727)		(188,631)
Total Accumulated Depreciation	(1,403,050)	(313,426)		(1,716,476)
Total Capital Assets, Being Depreciated, Net	12,639,336	(63,312)		12,576,024
Governmental Activities Capital Assets, Net	<u>\$ 13,443,339</u>	<u>\$ (63,312)</u>	<u>\$ 0</u>	<u>\$ 13,380,027</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 185,739
Protection to Persons and Property	17,312
General Health and Sanitation	10,625
Recreation and Culture	27,296
Roads	72,454
Total Depreciation Expense - Governmental Activities	<u>\$ 313,426</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Receivables

In August 2008, the Magoffin County Fiscal Court loaned \$20,000 to the Magoffin County Water District. The funds were used to install a water line extension to a family that was still carrying water from other sources to the dwelling. The receivable reflects the principal amount due from the Magoffin County Water District of \$20,000 outstanding as of June 30, 2009. The amount receivable corresponds to the Magoffin County Water District liability outstanding as of the end of the fiscal year.

Note 5. Short-term Debt

A. Kentucky Association of Counties –Truck

On August 30, 2007, the fiscal court entered into a capital lease agreement with Kentucky Association of Counties for the purpose of financing the purchase of a truck classified as held for sale. The principal amount of the lease was \$98,900 with repayment to be made on September 20, 2009. The county is to pay interest monthly. The principal balance of the agreement was \$0 as of June 30, 2009.

B. Changes in Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 98,900	\$	\$ 98,900	\$	\$
Financing Obligations	<u>\$ 98,900</u>	<u>\$ 0</u>	<u>\$ 98,900</u>	<u>\$</u>	<u>\$</u>

Note 6. Long-term Debt

A. First Mortgage Revenue Bonds, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semiannual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$98,700 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 4,200	\$ 4,935
2011	4,400	4,725
2012	4,600	4,505
2013	4,800	4,275
2014	5,100	4,035
2015-2019	29,500	16,100
2020-2024	37,600	7,955
2025	<u>8,500</u>	<u>425</u>
Totals	<u>\$ 98,700</u>	<u>\$ 46,955</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Long-term Debt (Continued)

B. Magoffin County, Public Properties Corporation - Justice Center

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds will be paid in full May 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is reliant upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

As of June 30, 2009, the principal balance on these bonds was \$6,010,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 340,000	\$ 249,690
2011	360,000	235,580
2012	360,000	220,640
2013	370,000	205,700
2014	385,000	190,345
2015-2019	2,135,000	701,480
2020-2023	2,060,000	219,598
Totals	<u>\$ 6,010,000</u>	<u>\$ 2,023,033</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Long-term Debt (Continued)

C. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate 3.8% and repayment began after all funds were drawn down. The county will pay semiannual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The county was late in paying the amount due on June 1, 2006; payment was made in July 2006. The principal balance of the agreement was \$128,544 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 21,437	\$ 4,929
2011	22,259	4,064
2012	23,113	3,165
2013	23,999	2,237
2014	24,920	1,263
2015	12,816	256
Totals	<u>\$ 128,544</u>	<u>\$ 15,914</u>

D. Kentucky Area Development District - Equipment

On December 3, 2001, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over an eleven-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$175,000 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 55,000	\$ 8,300
2011	60,000	5,360
2012	60,000	1,870
Totals	<u>\$ 175,000</u>	<u>\$ 15,530</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Long-term Debt (Continued)

E. Kentucky Area Development District

On May 28, 2008, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of financing a portion of the expenditures related to the Administration Building. The principal of the lease was \$635,000 with repayment to be made over a ten-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$390,000 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 35,000	\$ 17,150
2011	40,000	15,750
2012	40,000	14,150
2013	40,000	12,550
2014	45,000	10,850
2015-2018	190,000	23,713
Totals	<u>\$ 390,000</u>	<u>\$ 94,163</u>

F. Governmental Finance Loan – Sheriff Vehicle

On February 10, 2007, the fiscal court entered into a capital lease agreement with BB&T Governmental Finance for the purpose of financing a sheriff's vehicle. The principal of the lease was \$22,590 with repayment to be made over a four-year period. The county is to pay quarterly installments due in May, August, November and February in accordance with a schedule to complete the contract. The principal balance of the agreement was \$11,810 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 7,254	\$ 513
2011	4,556	105
Totals	<u>\$ 11,810</u>	<u>\$ 618</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 6. Long-term Debt (Continued)

G. Chrysler Financial – Sheriff’s Vehicles

On December 12, 2007, the fiscal court entered into a capital lease agreement with DaimlerChrysler Financial Services Americas LLC for the purpose of financing three sheriff’s vehicles. The principal of the lease was \$44,571 with repayment to be made over a 2-year period. The county is to pay annual installments due in December in accordance with a schedule to complete the contract. The principal balance of the agreement was \$23,092 as of June 30, 2009. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 23,092	\$ 1,734
Totals	\$ 23,092	\$ 1,734

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 6,447,700	\$	\$ 339,000	\$ 6,108,700	\$ 344,200
Financing Obligations	1,069,728		341,282	728,446	141,784
Governmental Activities Long-term Liabilities	\$ 7,517,428	\$ 0	\$ 680,282	\$ 6,837,146	\$ 485,984

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.5 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2009, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The beginning net assets of the governmental activities has been restated in total by \$5,515 for the recalculation of errors in the prior year GASB 34 capital assets depreciation schedules and for debt inadvertently not posted to the financial statements in prior years.

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MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,501,608	\$ 1,651,730	\$ 1,710,575	\$ 58,845
Excess Fees			34,845	34,845
Licenses and Permits	168,000	168,000	148,060	(19,940)
Intergovernmental Revenue	202,700	716,296	772,911	56,615
Charges for Services			774	774
Miscellaneous	71,700	71,700	72,898	1,198
Interest	300	300	439	139
Total Revenues	<u>1,944,308</u>	<u>2,608,026</u>	<u>2,740,502</u>	<u>132,476</u>
EXPENDITURES				
General Government	901,072	989,218	785,074	204,144
Protection to Persons and Property	11,667	14,626	14,626	
General Health and Sanitation	5,000	25,000	25,000	
Recreation and Culture		250,000	250,000	
Debt Service	330,910	580,910	348,203	232,707
Administration	409,267	461,880	383,087	78,793
Total Expenditures	<u>1,657,916</u>	<u>2,321,634</u>	<u>1,805,990</u>	<u>515,644</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>286,392</u>	<u>286,392</u>	<u>934,512</u>	<u>648,120</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(338,517)	(338,517)	(342,821)	(4,304)
Transfers From Other Funds			67,483	(67,483)
Total Other Financing Sources (Uses)	<u>(338,517)</u>	<u>(338,517)</u>	<u>(275,338)</u>	<u>(71,787)</u>
Net Changes in Fund Balance	(52,125)	(52,125)	659,174	711,299
Fund Balance - Beginning	<u>52,125</u>	<u>52,125</u>	<u>325,215</u>	<u>273,090</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 984,389</u>	<u>\$ 984,389</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$		\$ 5,596	5,596
Intergovernmental Revenue		1,068,793	1,118,117	1,098,398
Miscellaneous			4,239	4,362
Interest		500	500	265
Total Revenues		<u>1,069,293</u>	<u>1,128,452</u>	<u>1,108,621</u>
EXPENDITURES				
General Government		10,800	10,800	10,800
Roads		754,469	915,321	746,551
Debt Service				99,629
Administration		304,024	306,923	270,309
Total Expenditures		<u>1,069,293</u>	<u>1,233,044</u>	<u>1,127,289</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			<u>(104,592)</u>	<u>(18,668)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			50,000	50,000
Total Other Financing Sources (Uses)			<u>50,000</u>	<u>50,000</u>
Net Changes in Fund Balance			(104,592)	31,332
Fund Balance - Beginning			<u>104,592</u>	<u>127,082</u>
Fund Balance - Ending	\$	0	\$ 158,414	\$ 158,414

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 575,848	\$ 678,768	\$ 901,682	\$ 222,914
Miscellaneous	1,800	12,965	14,402	1,437
Interest	250	250	174	(76)
Total Revenues	<u>577,898</u>	<u>691,983</u>	<u>916,258</u>	<u>224,275</u>
EXPENDITURES				
General Government	27,659	41,139	40,638	501
Protection to Persons and Property	131,156	193,412	161,165	32,247
General Health and Sanitation	8,500	17,817	17,298	519
Social Services	29,000	29,861	20,561	9,300
Recreation and Culture	85,764	125,542	114,288	11,254
Roads	96,623	110,950	110,950	
Capital Projects	9,793	13,600	13,600	
Administration	46,647	46,750	31,590	15,160
Total Expenditures	<u>435,142</u>	<u>579,071</u>	<u>510,090</u>	<u>68,981</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>142,756</u>	<u>112,912</u>	<u>406,168</u>	<u>293,256</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(142,756)	(142,756)	(89,000)	53,756
Total Other Financing Sources (Uses)	<u>(142,756)</u>	<u>(142,756)</u>	<u>(89,000)</u>	<u>53,756</u>
Net Changes in Fund Balance		(29,844)	317,168	347,012
Fund Balance - Beginning		<u>29,844</u>	<u>111,604</u>	<u>81,760</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 428,772</u>	<u>\$ 428,772</u>

MAGOFFIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Jail Fund	Forest Fire Fund	Solid Waste Fund	Community Center Sinking Fund
ASSETS				
Cash and Cash Equivalents	\$ 10,729	\$ 1,925	\$ 45,551	\$ 16
Total Assets	<u>10,729</u>	<u>1,925</u>	<u>45,551</u>	<u>16</u>
FUND BALANCES				
Reserved for:				
Encumbrances	918		131	
Unreserved:				
Special Revenue Funds	<u>9,811</u>	<u>1,925</u>	<u>45,420</u>	<u>16</u>
Total Fund Balances	<u>\$ 10,729</u>	<u>\$ 1,925</u>	<u>\$ 45,551</u>	<u>\$ 16</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2009
 (Continued)

911 Fund	Right of Way Use Fund	Health Department Grant Fund	Reserve Fund	Total Non-Major Governmental Funds
\$ 133,369	\$ 22,694	\$ 1	\$ 222	\$ 214,507
133,369	22,694	1	222	214,507
				1,049
133,369	22,694	1	222	213,458
\$ 133,369	\$ 22,694	\$ 1	\$ 222	\$ 214,507

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Jail Fund	Forest Fire Fund	Solid Waste Fund	Community Center Sinking Fund
REVENUES				
Taxes	\$	\$ 2,682	\$ 29,528	\$
Licenses and Permits				
Intergovernmental	63,654		90,606	
Miscellaneous			11,410	
Interest	10		13	
Total Revenues	<u>63,664</u>	<u>2,682</u>	<u>131,557</u>	
EXPENDITURES				
Protection to Persons and Property	316,780	2,957		
General Health and Sanitation			131,115	
Roads				
Debt Service			26,408	9,035
Capital Projects				
Administration	25,230		19,569	
Total Expenditures	<u>342,010</u>	<u>2,957</u>	<u>177,092</u>	<u>9,035</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(278,346)</u>	<u>(275)</u>	<u>(45,535)</u>	<u>(9,035)</u>
Other Financing Sources (Uses)				
Transfers To Other Funds				
Transfers From Other Funds	286,500		81,800	9,050
Total Other Financing Sources (Uses)	<u>286,500</u>		<u>81,800</u>	<u>9,050</u>
Net Change in Fund Balances	8,154	(275)	36,265	15
Fund Balances - Beginning	<u>2,575</u>	<u>2,200</u>	<u>9,286</u>	<u>1</u>
Fund Balances - Ending	<u>\$ 10,729</u>	<u>\$ 1,925</u>	<u>\$ 45,551</u>	<u>\$ 16</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

911 Fund	Right of Way Use Fund	Building Administration Fund	Health Department Grant Fund	Reserve Fund	Total Non-Major Governmental Funds
\$ 282,043	\$ 22,700	\$	\$	\$	\$ 314,253
			79,440		22,700
150			1		233,700
65	6	382			11,561
<u>282,258</u>	<u>22,706</u>	<u>382</u>	<u>79,441</u>		<u>582,690</u>
136,289					456,026
	12				131,115
		12,511			12
			79,440		47,954
59,566		597			79,440
<u>195,855</u>	<u>12</u>	<u>13,108</u>	<u>79,440</u>		<u>104,962</u>
					819,509
86,403	22,694	(12,726)	1		(236,819)
		(67,483)			(67,483)
		4,471			381,821
		(63,012)			314,338
86,403	22,694	(75,738)	1		77,519
46,966		75,738		222	136,988
<u>\$ 133,369</u>	<u>\$ 22,694</u>	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 222</u>	<u>\$ 214,507</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates PSC*

Certified Public Accountants and Consultants

The Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 12, 2009. Magoffin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magoffin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Magoffin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Magoffin County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04, 2009-05 and 2009-06 to be significant deficiencies in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Magoffin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2009-07.

We noted certain matters that we reported to management of Magoffin County in a separate letter dated November 12, 2009.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

November 12, 2009

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2009-01 The Payroll Revolving Account Should Maintain A Zero Balance

The payroll revolving account had an ending reconciled balance at June 30, 2009 of \$16,242. Revolving accounts are just clearing accounts. The money deposited should equal the disbursement paid from the account. If there are any monies remaining at the end of the year, a determination should be made if any additional liabilities are owed and if not reimburse the appropriate funds accordingly. We recommend that the Fiscal Court determine if liabilities exist and if not these monies should be reimbursed to the appropriate funds.

County Judge/Executive's Response: Employee tax issues were from 2006 (previous administration) are still in review by IRS. Will zero out payroll account when this issue is resolved. Still awaiting response from IRS.

2009-02 The Fiscal Court Should Require That Proper Records Be Maintained For The Public Properties Corporation Fund

The Fiscal Court should require that proper records be maintained for the Magoffin County Public Properties Corporation. Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation, it is a blended component unit of the Fiscal Court. The Public Properties Corporation Fund issued the debt for the Justice Center and receives payments from the Administrative Office of the Courts to make the necessary debt service payments. The Fiscal Court should designate someone to receive the bank statements for the Public Properties Corporation, maintain a receipts and disbursements ledger, and prepare a financial statement.

County Judge/Executive's Response: Finance Officer will be assigned this responsibility.

2009-03 The Fiscal Court Should Monitor Bonding Requirements For All Elected And Appointed Officials

During our testing of bonded officials of the County, we noted the personnel fulfilling the Finance Officer's position did not have a bond in place for fiscal year ending June 30, 2009. We recommend the Fiscal Court immediately bond the personnel fulfilling the Finance Officer's position. We also recommend that the County implement policies and procedures for monitoring bonding requirements of all elected and appointed officials.

County Judge/Executive's Response: This has been corrected for the Finance Officer.

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2009-04 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The County did not have a completed capital asset schedule for fiscal year ending June 30, 2009. A list of capital asset additions, retirements and disposals were not properly maintained. In addition, assets were retired or disposed of without proper descriptions therefore we were unable to identify these items in order to remove the items from the capital asset schedule. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is retired or disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules and records to comply with GASB 34 requirements.

The Fiscal Court should review the capitalization policy, as currently all assets are capitalized at the same threshold level. Assets should be capitalized relative to their cost values and useful lives. The Fiscal Court should annually review the asset listing comparing to it the assets listed on the insurance policy to ensure that all assets owned are insured and that assets disposed of have been removed from the insurance policies.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. We also recommend that the County implement policies that will identify and track additions, retirements and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's Response: Agree and in the process of correcting.

2009-05 The Fiscal Court Should Improve Controls Over Payroll Procedures

Several deficiencies were noted in the internal control structure as it relates to payroll, namely, in the documentation, preparation, and presentation of payroll items. The following issues were noted during payroll testing and need to be addressed by the fiscal court:

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2009-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
 (Continued)

- Of the twenty-one (21) employees tested, five employees tested had no W-4 documentation and fifteen (15) employees tested had no I-9 or other deduction documentation in their personnel files. Six (6) employees tested had no personnel files maintained. One employee tested was hired during the year and the position was approved, but not the salary information by fiscal court.
- Timecards for the office staff tested were approved by the Chief Assistant to the Judge/Executive. The Chief Assistant is a volunteer and acts as a Deputy Judge/Executive when the Judge/Executive is absent.
- One employee tested receiving compensatory time has accrued a total of 269.50 hours, which exceeds the limits defined by KRS 337.285. The county's administrative code does not outline a compensatory policy and it was noted that the county is not consistent with all employees that qualify for compensatory time.
- The county did not report to the IRS on Form 1099-MISC any independent contractors paid for the 2008 calendar year.

The county's administrative code in 350.1 defines a full-time employee as "an employee who works at least forty (40) hours per week on a regularly scheduled basis" and "The supervisor or Judge/Executive must approve all overtime before work is performed."

KRS 337.285 states that "a county employee engaged in other work in excess of forty (40) hours, may accrue not more than two hundred forty (240) hours of compensatory time.

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. To further strengthen internal controls, the timesheets should be signed by the employee and by the employee's immediate supervisor for verification and attestation of the accuracy of time reported.

Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the county and that these errors will not be identified and corrected.

We recommend that the county implement the following internal control procedures to ensure the proper documentation, preparation, calculation and presentation of payroll related items:

- The county should review all personnel files and maintain up-to-date documentation on all employees.
- The fiscal court should approve all salaries and salary changes.
- The fiscal court should define the position of Chief Assistant and bond the volunteer, if that volunteer is responsible for financial decisions.
- The county should ensure that all deductions are applied consistently among all employees according to documentation filed in each employee's personnel file.

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2009-05 The Fiscal Court Should Improve Controls Over Payroll Procedures
 (Continued)

- The fiscal court should review the administrative code to define and include compensatory time, consistent for all qualifying employees as defined by KRS 337.285.
- The county should review with the Internal Revenue Service guidelines its payroll processes for defining independent contractors and when amounts paid to independent contractors are required to be reported to the contractor and the Internal Revenue Service.

County Judge/Executive's Response: The Volunteer Chief Assistant has no current financial decision making responsibilities. If in the future the Chief Assistant Volunteer is assigned any financial decision making responsibilities, he will be bonded.

2009-06 The Fiscal Court Should Improve Controls Over Expenditures

Several deficiencies were noted in the internal control structure as it relates to expenditures, namely, in the documentation, preparation, and authorization of expenditure items. The following issues were noted during expenditure testing and need to be addressed by the fiscal court:

- Of the forty-four (44) invoices tested, one (1) invoice was not paid within 30 days as required, six (6) invoices did not have a signature approval on the purchase order, and no invoices had any cancellation indicated upon payment.
- Of the \$10,821 in credit card disbursements, we could not determine the appropriateness of \$2,083 due to lack of supporting documentation.
- The Chief Assistant, who is a volunteer, is assigned a county cell phone. The county's administrative code does not address the assignment or use of cell phones by employees or volunteers.
- The fiscal court paid \$505 in late fees on credit card and insurance premium payments.

Maintaining strong internal control is by having an approved purchase order prior to payment as required by the administrative code. Cancellation or defacing the invoice upon payment ensures that an invoice will not be paid twice or duplicated for payment. Documentation of all expenditures should be included in the overall payment package for approval by fiscal court.

An annual review by the fiscal court of the administrative code is required by KRS 68.005 during the month of June. Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees' wage and tax statements. Internal Revenue Code Section 61(a) states that the personal value or benefit to the individual by a public entity represents taxable income to the individual.

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2009-06 The Fiscal Court Should Improve Controls Over Expenditures (Continued)

KRS 65.140(2) requires all bills for goods and services to be paid in full within thirty (30) working days of receiving a vendor invoice. It continues to state that is payment of invoices exceeds thirty (30) days, a 1% interest penalty should be added.

We recommend the county review, utilize, and adhere to all applicable laws and regulations. Specifically, we recommend the county take the following action to comply with the Department for Local Government requirements and Kentucky Revised Statutes included within:

- Ensure expenditures occur within thirty (30) days of receiving vendor invoices or compensate vendors according to statutory interest penalties for payments exceeding thirty (30) days. Deface all invoices upon payment to ensure no duplication of payment can occur. Strong internal controls will also ensure that late fees will not be incurred by the county.
- Review and update the administrative policy annually in June as required.
- Review all payment packages presented to fiscal court for approval to ensure proper documentation is maintained to support the payment and all proper approvals are documented.
- Design and implement a cell phone policy for business and personal use of cell phones within the administrative code as guidelines for proper payment and adherence with Internal Revenue Code regulations.

County Judge/Executive's Response: Telephone investigation revealed receipts for equipment vendor and conference. Employees instructed that receipts are necessary for documentation. Conference and vendor were both legitimate bills. Receipts may be faxed and hand delivered. Cell phone records reviewed by Judge/Executive reveal that assigned cell phone has only been utilized for county business. The credit card bill arrived after our monthly fiscal court meeting and late fees were assessed before the next meeting. We tried to get the due date adjusted so late fees would not occur. The company would not accommodate the court so the card was cancelled. Annual review of Administrative Code will be conducted at the next June meeting.

STATE LAWS AND REGULATIONS

2009-07 The Fiscal Court Should Adopt A Written Investment Policy

The Fiscal Court had not adopted a written investment policy of public funds. KRS 66.480(3) requires Fiscal Courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the Fiscal Court adopt a written investment policy per KRS 66.480 (3). If needed, the Fiscal Court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive's Response: Investment Policy has been assigned to committee of Judge/Executive, Treasurer, and County Attorney. Will be reviewed at fiscal court meeting of January 2010 for action by fiscal court.

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**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles E. Hardin, Jr.
County Judge/Executive



Kila Keeton
County Treasurer

